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SALES TAX

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THE HISTORY

The state sales tax, which was first imposed in 1933, is one of the oldest and most important taxes collected by the Illinois Department of Revenue.

The sales tax was enacted as a result of the Great Depression. Until then, state government received most of its revenue from a statewide property tax. However, proceeds from that tax declined drastically during the depression as property values dropped and many citizens became unable to pay their taxes. At the same time, additional money was needed to provide relief to residents affected by the large-scale unemployment.

The initial attempts at providing a new tax— first a graduated income tax and then a general sales tax— were declared unconstitutional by the Illinois Supreme Court. In 1933, legislators passed a Retailers' Occupation Tax based on a merchant's sales of "tangible personal property". (It did not include intangible personal property such as stocks, bonds, insurance policies, etc. nor did it include real estate, i.e. land, buildings, etc.)

LOOPHOLES CLOSED

The Retailers' Occupation Tax, sometimes called the R.O.T., was the only sales tax in Illinois until 1955, when the Illinois General Assembly passed a Use Tax on the privilege of using within Illinois tangible personal property purchased outside of the state. This tax was designed to discourage residents from buying goods in other states to avoid paying sales tax, thus putting Illinois merchants at a disadvantage.

Six years later, a group of Service Taxes was passed which covered the serviceman's cost of "tangible personal property" used when performing a service, such as the parts used to repair an automobile.

LOCAL OPTIONS PROVIDED

In 1955, the legislature responded to the needs of municipalities by passing the Municipal Retailers' Occupation Tax, which allowed cities, towns and villages to impose a sales tax which would be collected for them by the state. This same provision was

extended to counties in 1959 when the County Retailers' Occupation Tax Act was passed.

Transit district sales taxes were first authorized in 1979 for the Regional Transit Authority to help finance mass transit in the six-county Chicago metropolitan region, then in 1981 for the Metro East Mass Transit District (portions of Madison, Monroe and St. Clair counties).

TODAY . . .

Today, the Illinois Department of Revenue collects 16 different sales taxes, including four state taxes, six local government sales taxes and six mass transit district taxes.

The state sales tax is 4 percent until Jan. 1, 1984, when it will increase to 5 percent. The state sales tax usually is coupled with a local sales tax of 1 percent. Mass transit district taxes vary from 1 percent in Cook County to one-quarter of a percent in the five collar counties (Kane, DuPage, Lake, McHenry and Will) and in two of the Metro East counties (St. Clair and Madison).

Tax breaks are provided on some items — food and drugs, farm machinery, manufacturing machinery and equipment, and gasohol.

Tax rates in the 45 states which impose sales taxes vary from 2 percent in Oklahoma to 7.5 percent in Connecticut. Illinois will be among 19 states with a state sales tax rate of 5 percent or more. Twenty-six states have lower rates.

The Illinois tax is paid to the state by some 185,000 retailers, most of whom file tax returns each month.

THE REVENUES AND WHERE THEY GO

The tax brings in more than \$2 billion, which makes it second in size only to the state's income tax. The local taxes imposed by all 102 counties and some 1,300 municipalities brings in more than \$500 million for local governments.

Most of the state sales tax money goes into the General Revenue Fund where it is used to support

state government (including the legislature and court system), health and social services, police and prisons, environment and natural resources, public aid and public education. Other proceeds from the tax are allocated specifically for schools and transportation spending.

COMMONLY ASKED QUESTIONS:

Coupons: Should tax be charged on the coupons I use when purchasing merchandise?

Tax is **not** due on promotional coupons issued by the merchant or an associated business for which the retailer is **not** reimbursed by another source (manufacturer, distributor, etc.). If, however, the retailer is reimbursed for the value of the coupon by some other source, tax is due on the full price of the merchandise, including the value of the coupon. A manufacturer's or other cash-back coupon represents money in the pocket of the retailer, whereas a discounted price due to a non-reimbursable coupon does not add receipts to the retailer's cash register.

Churches and charities: Isn't there a provision that allows churches and charities to buy tax-free?

Yes. The law specifically excludes sales to exclusively charitable, religious, not-for-profit senior citizen recreational organizations, and educational organizations and institutions. In addition, items purchased by federal, state and local governments are not taxed.

Retailers may require bona fide organizations to supply a copy of their exemption letter when making a purchase. Exemption letters for qualified organizations may be obtained by writing: Illinois Department of Revenue, Legal Services Bureau, 1500 S. 9th St., Springfield, IL 62708. To be considered for such a letter, an organization needs to submit copies of its charter or constitution and its bylaws.

Garage sales: Am I expected to collect sales tax at my garage sale?

A garage sale, no. A flea market, yes. The law excludes what is termed "occasional sales" – which means that sales by non-retailers are not taxable (with the exception of cars and trucks which are five years of

age or less). Persons selling merchandise at flea markets, fairs, art shows and the like are expected to collect tax.

Shipping charges: Is it correct for a retailer to charge me tax on the shipping charges for a catalog order?

Yes. If the order was shipped to the retailer's normal business location, the merchandise is no different from other items provided for sale in the store, which have transportation charges included in their total selling price. Shipping or delivery charges for bringing merchandise to your home are **not** taxable inasmuch as home delivery is not usually part of the retailer's normal cost of providing merchandise for sale in the store. However, "handling" charges are subject to the tax.

Mail order: When I order items from catalog firms located out of state, do I have to pay Illinois sales taxes?

Yes. Many major mail order firms are registered with Illinois to collect the state's use tax (a tax on the privilege of your using tangible personal property in Illinois). In most cases, the local sales taxes are not included. The state use tax is to be paid to the mail order firm along with your payment for merchandise. The firm then includes this amount on its tax return. If the tax is not collected by the mail order firm or other out-of-state business, it is your responsibility to pay the tax directly to the Department of Revenue.

Cars purchased out of state: What are the tax requirements for automobiles, motorcycles, airplanes and the like purchased out of state?

The state's use tax is due on transactions involving items which are licensed and titled with the state. The state will not issue licenses without proof that this tax has been paid. Illinois residents need to submit the following to the Illinois Department of Revenue: (1) a copy of the bill of sale, (2) a copy of the certificate of origin, (3) a completed regi-title application (available from Secretary of State's office) and (4) a check made out to the Illinois Department of Revenue for the proper tax amount and (5) a check made out to the Secretary of State. Revenue forwards the license application materials to the Secretary of State's office together with confirmation that the tax has been paid.

Bottle Deposits: Do I have to pay sales tax on bottle deposits?

No. Sales tax is not due on bottle deposits.

Newspapers, Magazines: Is there sales tax on newspapers and magazines?

Newspapers and magazines are **not** subject to tax. Books, however, are subject to tax.

IF YOU HAVE ADDITIONAL QUESTIONS:

Call: (217)782-7897
(312)641-2150

Write: Illinois Department of Revenue
Sales & Excise Tax Division
P.O. Box 4007
Springfield, IL. 62708

To register as a retailer:

Call: (217)785-3707
(312)793-3196

Write: Illinois Department of Revenue
Central Registration
P.O. Box 4054
Springfield, IL. 62708

Information and assistance can also be obtained at Revenue district offices in Chicago, West Chicago, Des Plaines, Evergreen Park, Broadview, Rockford, Wauconda; Rock Island, Peoria, Champaign, Springfield, Fairview Heights and Marion.

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